



**EUROCHAMBRES**

Connecting **business to Europe**

## **Position Paper**

12 October 2012

# **EUROCHAMBRES' VIEWS ON THE POTENTIAL BACKLOADING OF ETS AUCTION VOLUMES**



**Response to the Commission  
consultation on the review of the  
auction time profile for the EU  
Emissions Trading System**

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## Executive Summary

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*EUROCHAMBRES recognises the important role that the EU plays as a pacemaker in global climate and energy policy and supports the 20% reduction target of greenhouse gas emissions set out in the Climate and Energy Package. As a key tool, the EU Emission Trading System (ETS) contributes significantly to the achievement of this target and ensures that cuts can be achieved at least costs. The ETS' "cap and trade" principle guarantees that, independent of the price level, this goal will be reached. However, any intervention with the aim of increasing the price of emission allowances would heavily burden businesses, already affected by the economic crisis. Apart from that, arbitrary interventions undermine businesses' ability to plan and will subsequently preclude future investments.*

***For the above reasons EUROCHAMBRES strictly opposes the Backloading of ETS auction volumes in the present situation.*** Moreover, Chambers claim that any change of the auctioning regulation, for which they currently see no need, should go through the ordinary legislative procedure and be discussed with all relevant stakeholders, based on thorough evaluations of potential effects, especially on carbon leakage.

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## 1. Background

In late 2011, the ETS-market price for one ton of CO<sub>2</sub> dropped permanently below 10 euros and is now significantly lower than the impact assessments of the European Commission predicted. This price development has mainly been influenced by the economic and sovereign-debt crisis, subsequent austerity measures, increased supply of international carbon credits used for compliance, early auctioning of phase 3 allowances and not least because of increased energy efficiency and the use of renewable energy sources.

On 25 July 2012, the European Commission presented two proposals for amending the ETS aimed at raising the price for carbon emission allowances. First, a proposal for amending the ETS Directive, which would give the EC the authority to change auctioning legislation and second, a possible future amendment to the Auctioning Regulation modifying the 2013-20 calendar and backloading allowances from the beginning to the end of the third trading period. In addition, the Commission drafted a staff working document, which contains three scenarios for the number of backloads. The examined options would reduce the volume of auctioning between 2013 and 2015 by 400, 900 or 1200 million allowances.

The Commission justifies its proposal by arguing that the functioning of the ETS market must be improved. As a subsidiary argument, it is often claimed that the current price hardly offers incentives for investment in low carbon technologies. Finally, a low carbon price also causes a lack of budget revenues for the member states.

However, EUROCHAMBRES identifies many risks connected with an artificially increased carbon price, which outweigh these arguments.

## 2. General considerations

Against the background of potential interventions in the EU-ETS, EUROCHAMBRES calls on the decision makers to take the following considerations into account:

- The EU Emission Trading Scheme, as currently regulated, works. Even in times of a low carbon price, European businesses continued to invest in eco-innovation and renewable energy systems which has been proved by the progress in decoupling the increase of CO<sub>2</sub> emissions from economic growth.
- Fluctuations in the CO<sub>2</sub> price are a natural process in markets like the ETS. The current CO<sub>2</sub> price reflects the development of supply and demand. Reductions in emissions will always result in decreased CO<sub>2</sub> prices.
- In any case, the third trading period constitutes a tightening and expansion of the ETS (e.g. through the phase-out of free allocations and the annual reduction of the cap).
- The environmental effect of an absolute cap on CO<sub>2</sub> emissions in the affected sectors will be achieved under the current system. By 2020, the ETS sector must reduce its emissions by 21% compared to 2005. It is widely expected that this target will be reached, or even exceeded.

- The predictability of political actions is an important factor. For ensuring planning predictability, it is important that long term rules are respected and remain unchanged.
- No international agreement on binding CO<sub>2</sub> emission reductions including all major emitters has been concluded so far. Any actions increasing the burden for European industries would therefore further weaken the competitive position of EU industry. Arguably, they would also weaken the EU's negotiating position in seeking to secure such an international agreement which must of course remain the overall aim given Europe's negligible impact on climate change compared to other major economies.
- The latest revision of the ETS directive was integrated in the framework of the climate and energy package and was subject to various stakeholder consultations, an in-depth economic analysis and the result of political decision making at the highest level. Any other revisions should follow this example.
- The recently agreed link with the Australian carbon market as from 2015 will reduce the surplus of EU allowances. Until a full two-way link will be accomplished in 2018, Australian emitters are expected to absorb a significant part of European certificates.

Based on these considerations, EUROCHAMBRES comes to the conclusions outlined in the following chapter.

### **3. EUROCHAMBRES view on the reduction of auction volumes**

#### **No ad hoc actions through the comitology procedure**

The adoption of the required amendment of the ETS Directive (2003/87/EC) would leave the door wide open for future arbitrary interventions in the ETS. As a consequence, the Commission could adapt the Auctioning Regulation (No 1031/2010) by circumventing an ordinary legislative procedure. Against the background of a required predictability of market-driven price developments, EUROCHAMBRES opposes this blank cheque enabling the Commission to interfere with the allowances auctioning, ad libitum.

Any change to the ETS, including the Auctioning Regulation, for which EUROCHAMBRES currently sees no need, must be the result of a thorough evaluation of potential effects, especially on carbon leakage. In any case, changes have to go through the ordinary legislative procedure.

#### **Intervention rules must be followed**

The criteria for an intervention, which are clearly set out in the ETS Directive, are currently not met. EUROCHAMBRES argues for adherence to the rules set by the ETS Directive and adapted by the Energy-Climate-Package in 2009. The European Commission must not overturn the rules of the emission trading system to the cost of businesses.

## **Ensuring planning certainty**

Predictability of political action as well as of the price development is critical to building confidence among investors and entrepreneurs. However, the proposed backloading-scenarios would considerably reduce the ability of planning future developments. On the one hand, the prices would increase in the short term but on the other hand, the market participants could factor in the lower price of certificates after 2017. Thus, the effects caused by market interventions are anything but foreseeable. According to a recent survey of the German Chamber of Commerce and Industry among entrepreneurs, energy and raw material prices carry the greatest risks for the development of their companies.<sup>1</sup> For energy-intensive businesses in particular, the limits of acceptability have been reached. This inevitably has a knock-on effect on the wider economy.

Moreover, the ongoing debate is not at all beneficial for the investment climate. Since nobody can plan on the basis of ad-hoc actions, investment decisions have to be postponed. However, investments are urgently needed for reshaping Europe's energy system and accelerating the economic recovery. Hence, for EUROCHAMBRES it is crucial that long-term rules remain unchanged and trust therein is not undermined.

## **No additional obstacles to EU growth**

The backloading acts as an obstacle to EU growth and would place an additional burden on the European economy and its (energy intensive) industrial base. At a time when the economic situation is fragile and the sovereign debt crisis weighs heavily, businesses should not be subject to new burdens. Growth and employment would be jeopardized at a time when Europe needs an economic upturn more than ever before. Apart from that, the planned shortage of CO<sub>2</sub> emission certificates would not only increase the electricity price for businesses but also for private households.

During recent years, the European industry has already made great efforts to reduce greenhouse gas emissions. In many cases, the technical possibilities are almost exhausted. Therefore, it cannot be assumed, that a higher carbon price would automatically lead to more investments in low carbon technologies.

EUROCHAMBRES calls on the Commission, in line with the aims of its Europe 2020 growth strategy, to take appropriate measures in order to prevent additional burdens on businesses.

## **Preventing carbon leakage**

On a global level, the gap between the EU and growth front runner countries is widening. Against the background of an increasingly tense international business environment, differing degrees of climate protection efforts will result in competitive disadvantages for EU businesses. An artificially increased CO<sub>2</sub> price and the lack of predictability of the ETS make it even more difficult for businesses to produce cost-effectively inside the EU. Thus, too ambitious actions by the Commission raise the risk of inducing a shift of carbon emissions from the EU to third countries. Apart from the negative impact this would have on the EU's economy, it would also gravely undermine the international climate change response. It is imperative for the EU to prevent losing more and more energy-intensive industries, which are also an important supplier of components and base material for sustainable energy technologies.

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<sup>1</sup> DIHK Konjunkturumfrage Frühsommer 2012 ([www.dihk.de/themenfelder/standortpolitik/konjunktur-und-wachstum/umfragen-und-prognosen/konjunkturumfrage-fruehsommer-2012](http://www.dihk.de/themenfelder/standortpolitik/konjunktur-und-wachstum/umfragen-und-prognosen/konjunkturumfrage-fruehsommer-2012))

## No short-sighted measures

The banner of the EU climate policy must not fall victim to short-sighted policy. It has to be ensured that the ETS remains a market-based instrument. Using the carbon market only as a complex CO<sub>2</sub> tax with a politically managed price mechanism would run counter to the basic idea of the ETS. Moreover, governments and EU institutions must resist the temptation to use the ETS as a mean to increase revenue for public budgets.

## 4. Way forward

For the above reasons EUROCHAMBRES opposes both the proposed amendment of the ETS Directive, as well as the presented draft for a possible future amendment of the Auctioning Regulation. In conclusion, it must be stated that the change of the time profile for auctions makes sense neither in ecological nor economic terms.

In order to counteract the uncertainties among investors and entrepreneurs, the EU should refrain from stand-alone actions, creating obstacles to growth and adversely affecting the competitiveness of the European industry. By moving towards unilateralism, the European Union is also further hampering its negotiation position in the international climate discourse. None of the key international players have yet been sufficiently impressed by the European commitments to follow suit, nor seem likely to do so in the near future. EUROCHAMBRES is convinced that unilateral actions will hinder growth and thus devalue Europe as a business location. Sustainable climate protection can only be guaranteed globally by comprehensive, coordinated actions, especially by industrialised countries. Thus, far more importance should be attached to international cooperation instead of stand-alone actions.

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*EUROCHAMBRES is the sole European body that serves the interests of every sector and every size of European business and the only one so close to business. EUROCHAMBRES has member organisations in 45 countries representing a network of 2000 regional and local Chambers with over 20 million member companies. Chamber members employ over 120 million employees.*

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